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M. de Flaix's book cannot therefore be recommended as an entirely trustworthy guide in details — being in this respect decidedly inferior to the historical volume of Wagner. Its usefulness consists mainly in giving the reader a good general survey of the leading movements in financial development. Thus the chapter on England which occupies almost half the work (228 pages) is interesting above all for the clear account of recent reform projects — those of the Tories, the Liberals, the Radicals and the Socialists. In like manner the chapter on the fiscal and social reforms of Germany is exceedingly readable. It is to be regretted that M. de Flaix, like so many of his countrymen, seems unable to combine clearness and attractiveness of form with thoroughness in facts and methods.

E. R. A. S.

*Kapital und Kapitalzins.* Von Dr. EUGEN VON BÖHM-BAWERK, o. ö. Professor an der k. k. Universität in Innsprück. Zweite Abtheilung: *Positive Theorie des Kapitals.* Innsprück, Verlag der Wagner'schen Universitäts-Buchhandlung, 1889. — 8vo, 467 pp.

It will be remembered that four years ago Professor von Böhm-Bawerk published a *History and Criticism of Theories of Capital and Interest*. This book was preparatory, and contained the promise of a later volume that should supply the constructive portion of the general work. The promise is now fulfilled: *The Positive Theory of Capital* appeared at the beginning of the present year. The work is, essentially, a study of the element of time in social economy. An analysis that others have begun, and that some have even carried far enough to reveal the wealth of scientific results to be gained by a successful completion of the study, Professor von Böhm-Bawerk has undertaken from the beginning, in entire independence, and has carried to such completeness as to present a new and self-consistent theory of the nature and function of capital and of the origin and determining law of interest. That it is the only true theory of these subjects would be too much to say; but it is safe to say that no complete theory of distribution can hereafter be made that shall not incorporate into itself an essential part of Professor von Böhm-Bawerk's study of time as an economic element.

To give here an abstract that shall do justice to the work is impracticable. Within the limits of this notice the best that can be done is to indicate a few of the fundamental principles on which the theory is based, and the general direction in which they are applied.

Of these principles the first is that of the fruitfulness of indirect production. Labor gets a larger return when it pursues a roundabout course. A man may take fish by hand, in shallow pools; but he fishes to better advantage when he builds a boat and weaves a net. These

processes delay the result ; they put into the future the gratification that is to result from the labor ; but they make the return richer. Counting every day spent on the intermediate products, boat and net, as well as the time spent in utilizing them, the gain realized per unit of labor is enormously increased. So wood-cutting is a more productive process when it takes, at first, the form of axe-making. If the interval of production be farther lengthened by elaborating the working implements, there is still a gain to be realized ; but it is a smaller one. If the making of a first rude implement doubled the length of an industrial period, and at the same time quadrupled the product, it had the effect of rendering each day's labor twice as fruitful as before. If now we again double the length of the productive interval it is not at all likely that we shall a second time quadruple our product. We shall increase it, but the increase will be in a smaller ratio. As we elaborate implements, we continually increase our product per unit of labor expended ; but the gain is in a ratio that becomes smaller as the period of production is lengthened. The multiplying of industrial instruments, which is equivalent to quantitatively increasing capital, figures in the theory that we are studying as a prolonging of the interval of time between the application of the initial labor of an industry and the reaping of its final fruits. This use of time is found to be subject to a law of diminishing returns.

The characteristic of indirect production is the creation of intermediate products. Boat and net stand between the application of the initial labor of fishing and the realizing of its ultimate fruit. The axe that cuts trees, the steel that makes axes, the furnace that creates steel, *etc.*, all follow the initial steps of tree-cutting labor and precede the full realizing of its returns. Such intermediate products, in their entirety, constitute social capital ; and such is the conception that is substituted for all others that have gone by this name.

In the necessity of waiting for the results of indirect production lies the sacrifice entailed by the process. Future gratifications appeal to men with less force than present ones, and "commodities of the future" stand at a discount in men's subjective valuations, as compared with commodities of the present. This principle does not, indeed, operate independently of a man's circumstances ; he may be so well provided for in the present that no new article of necessity or of ordinary comfort can do him any immediate good ; and in that case he must defer the use of such an article to a future period if he is to get any benefit from it. In this connection Professor von Böhm-Bawerk makes a concise but complete analysis of the motives for accumulating capital. In general, present gratifications are at a premium as future ones are at a discount in the subjective valuations of men, and commodities of the future are depressed in their market value.

These two principles, namely, that of the fruitfulness of indirect production and that of the depreciated value of deferred results are practically applied to questions of interest and wages with an amplitude that makes it a doubtful service to here give even an indication of the general course of the argument. The loaning of capital is treated as a direct exchanging of present goods for goods of the future. If such an exchange is to be an even one, the commodities returned must exceed those loaned in amount. The excess in the amount repaid is an offset for the discount that the market imposes on goods of the future. In determining the amount of this *agio* an application is made of that theory of value with which the name of the author and those of other Austrian economists are prominently connected. This analysis of value furnishes a key that is essential to a solution of the problems of interest and wages.

*Entrepreneurs'* gains come also through the agency of a time interval ; but in this case they come through a "ripening" of commodities in the *entrepreneurs'* hands. Buy to-day commodities of the future, and you will get them at a discount. Keep them till they are needed and ready for use, and they will then be commodities of the present. The discount will then have disappeared. Your gains also resolve themselves into the premium that present goods command as compared with those of the future. Circumstances may give you more than this ; but in that case the excess of gain is something besides interest.

Interest is not gained by an exploitation of labor, though social relations may be such as to place the laborer in some danger of suffering in his dealings with capitalist employers. In its essence, interest is wholly just. Certain socialistic arguments on this point are refuted in the book in a manner that is unanswerable.

A special feature of the work is its treatment of all capital as a fund for future consumption. A classical definition of capital makes one form of it to consist in a store of food for the maintenance of laborers. It has been difficult to discover anywhere in modern industry such a storing operation as this implies, though, as Professor Patten has shown, the necessities of agriculture cause a certain counterfeiting of the process. Crops are harvested in autumn for the entire year because they cannot be gathered at other seasons. Such an accumulating and storing of food as the naïve statements of early economists describe nowhere takes place. If, however, we say, not that some capital is literally a store of food for laborers, but that all capital is capable of being viewed as constituting, in effect, a store of goods for the future consumption of society, we shall be on higher and safer ground. The intermediate products are all destined to ripen into goods for immediate consumption. An axe is equivalent to an accumulation of wood. A boat is, in effect, an accumulation of future fish. A loom is an accumulation of future cloth. It is easier

to show that all capital is, not literally but in effect, a store for future consumption, than to show that a distinct part of it is in literal fact such a store.

Another feature that distinguishes the book is the close identification of the problems of interest and of wages. Labor is a commodity of the future ; a man works to-day on that which will be consumed a month or a year hence. He must be paid in commodities of the present. He sells to his employer future goods in exchange for present ones ; and it is clear that in the transaction both parties recognize the *agio* that the market establishes in the case of such exchanges. The workman cannot expect to receive all the goods that, at the end of a productive interval, will result from his efforts.

The limitations that preclude a farther analysis of the work prevent extended comment on it and exclude all controversy. It needs to be said, however, that the book rather invites than discourages a complementary study of capital from a different point of view. It is an effect of Professor von Böhm-Bawerk's analysis to resolve all capital into an incident of a prolonged and indirect mode of applying labor. Granted the crude materials of the natural world, and granted mere labor and the possibility of applying it in the roundabout way that is most fruitful, and a lapse of time will give us incidentally all our mills, tools, railroads, *etc.* The end attained is the satisfaction of wants by directly usable commodities ; we ultimately get houses, clothing, food, books, *etc.* The original means of getting them is labor ; and the creation of capital is involved in our mode of applying labor. Now this implies that we may trace the usable goods that we possess to empty-handed labor as a cause, by following the process backward through a certain productive period. The house that shelters us is the product of bare labor. The workmen turned aside from a direct course to make tools and materials, and in their final labor they were assisted by these instruments. It may be that in making the tools and materials they were aided by other instruments farther back in the series. The starting-point must have been unaided labor. Where, then, is this starting-point located ? Is it at the beginning of any ordinary productive period ? It is rather at the very beginning of civilization. In tracing any product of recent labor backward through the chain of intermediate products toward the point where the process began with unaided labor, we begin to trace what is practically an infinite series. The house was made through the aid of intermediate products, such as lumber, brick, tools, nails, *etc.* Take any one of these and trace it toward its origin ; are we nearer to the starting-point than when we were seeking the origin of the house ? Not perceptibly. Nails were made by the aid of nail-cutting machinery ; the machinery was made by a variety of other instruments ; the iron was made by the aid

of a furnace ; and every one of the complex elements that enter into the blast furnace has its indefinite series of antecedents. If we follow the process back of the invention of machines we still have the series of simpler instruments, materials, buildings, *etc.*, as antecedent products. If we consider the intermediate products at any one time in existence, these stand, not between mere labor and its ultimate fruit, but between *past industry*, or labor aided by earlier instruments, and its ultimate result. That which stands between bare labor and its final fruit is, in literal fact, the sum total of all capital that has existed or that will exist. In tracing the series of intermediate products backward we fail, within any limited period, to find a beginning in bare labor ; and it is easy to show that in tracing the series forward toward its ultimate fruit in usable products we entirely fail, within a determinate period, to reach the goal. The productive instruments of the present will be used to make other instruments of the future ; and these again will be used in the making of still others. The series is endless on the side of the future as well as on that of the past. If the limits that enclose what we treat as a productive period be the application of empty-handed labor on the one hand, and the realizing of the entire fruit of that labor in usable products on the other, the period must be made as long as history, and the study must take account of all capital, past, present and future. Yet in applying the law of interest we must deal with short and definite periods of production. It is not probable that this difficulty has escaped the acute author of the theory, but it appears not to be fully met in the work itself. Here and elsewhere Professor von Böhm-Bawerk's study suggests fields for farther study.

JOHN B. CLARK.

*Le droit et les faits économiques.* Par A. BÉCHAUX. Paris, Guillaumin et C<sup>ie</sup>, 1889. — 8vo, 303 pp.

One of the most important questions propounded of late in relation to higher education on the continent of Europe is that of combining instruction in social and economic science with instruction in law. Both in France and in Germany such a combination is coming to be regarded as desirable ; but French lawyers have been much more cordial than their German *confrères* in the welcome extended to economic teaching. While all the French law faculties provide for instruction in economics, such provision is made in very few of the German universities. The German law student may of course attend economic lectures in the philosophical faculty ; but he is not required, nor is any serious attempt made, to induce him to do this.